

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2004-147

March 17, 2004

MAINE PUBLIC UTILITIES COMMISSION
Inquiry Into Standard Offer Supply
Procurement for Residential and Small
Commercial Customers

NOTICE OF INQUIRY AND
REQUEST FOR COMMENTS

WELCH, Chairman; DIAMOND and REISHUS, Commissioners

I. SUMMARY

Through this Notice, we initiate an inquiry to consider alternative approaches to procuring standard offer supply for residential and small commercial customers. We begin the inquiry by seeking general comments and responses to several questions listed below. We will also convene a public meeting to allow for further discussion of the issues raised in this inquiry.

II. BACKGROUND

On March 1, 2004, the Public Advocate filed a letter requesting that the Commission commence an investigation, pursuant to 35-A M.R.S.A. § 1303(2), to determine if the bidding approach to procure standard offer service for residential and small commercial customers should be revised to reduce customer exposure to price volatility. In his letter, the Public Advocate notes that the current three-year standard offer arrangement for residential and small commercial customers in the Central Maine Power Company (CMP) and Bangor Hydro-Electric Company (BHE) service territories will expire at the end of February 2005.¹ Although the Public Advocate states that the Commission's standard offer procurement approach has resulted in reasonably affordable and generally stable rates, he believes this result is not guaranteed into the future because of the practice of bidding out all of the standard offer load at a single point in time. The Public Advocate is concerned with the possibility that a single bid for all of the standard offer load could coincide with an upswing in wholesale prices, resulting in greater price volatility.

Based on this concern, the Public Advocate asks the Commission to consider revisions to the residential and small commercial standard offer bidding approach that would segment the standard offer supply into multiple contracts with differing contract durations so that in the future the entire supply would not be put out to bid at a single point in time. The Public Advocate also asks that the Commission consider how to

¹ The Public Advocate also noted that Maine Public Service Company's residential and small commercial customers are currently receiving standard offer service under a 34-month arrangement that will expire at the end of December 2006.

protect against price volatility and regional market disruptions by using a portfolio of standard offer contracts providing for a diversity of supply. Finally, the Public Advocate requests that the Commission consider what opportunities exist to supplement a portfolio approach with hedging strategies and with Efficiency Maine demand-reduction initiatives to further reduce the vulnerability of Maine's smallest customers to periodic price volatility when a standard offer arrangement expires.

On February 13, 2004, AARP Maine sent a letter to the Commission expressing some of the same concerns regarding small customer standard offer supply procurement as contained in the Public Advocate's letter. AARP Maine urged the Commission to formulate a long-term supply procurement plan and to hold hearings to obtain public input on a procurement approach and strategy.

III. DECISION TO INITIATE INQUIRY

Both the Public Advocate and AARP Maine raise valid issues regarding the procurement of standard offer supply for residential and small commercial customers. Accordingly, we hereby initiate an inquiry, pursuant to Chapter 110, Part 12 of our procedural rules,² for the purpose of considering issues related to procuring residential and small commercial standard offer supply. We will begin this inquiry by soliciting general comments on the "portfolio" approach suggested by the Public Advocate and responses to specific questions set forth below. We will then allow for written reply comments. The next step will be for the Commission to conduct a public meeting on the issues raised in this proceeding. Although not a formal hearing, interested persons may present experts on the topics of this inquiry to offer positions to the Commission and to respond to questions. After the public meeting, the Commission will determine the next stages of the inquiry. The dates for the first stages of this inquiry are stated below.

IV. COMMENTS AND QUESTIONS

The Commission invites comments on any aspect of the issues raised in the Public Advocate's March 1, 2004 letter.³ In addition, the Commission invites comments and responses to the specific questions set forth below.

² In his March 1, 2004 letter, the Public Advocate requested an "investigation" pursuant to 35-A M.R.S.A. § 1303(2). The Commission generally considers investigations pursuant to 1303(2) to be adjudicatory, while "inquiries" pursuant to Chapter 110 are not adjudicatory. Our view is that the issues in this proceeding can be best explored outside the restrictions of an adjudicatory process and we will therefore proceed with a non-adjudicatory inquiry. To the extent the Public Advocate seeks an adjudicatory proceeding at this time, the request is denied.

³ A copy of the Public Advocate's letter can be obtained from the Commission virtual docket www.state.me.us/mpuc.

Varied Term Lengths

1. Should the Commission segment residential and small commercial standard offer supply into multiple contracts with multiple contract durations? What would be the advantages and disadvantages of such an approach?
2. If the answer to #1 is yes, how many segments should the standard offer supply be broken into and what should the time periods be for the contract durations?
3. Does dividing the standard offer supply into segments create a risk of adverse price impacts in that bid prices might be higher for smaller amounts of load?
4. Would this strategy affect the prospects for retail competition in the residential and small commercial sectors? In what ways?
5. How should utility capacity and energy entitlements be treated if standard offer supply is segmented? Should the Commission continue to allow standard offer bids that are linked to bids for the utility entitlements? Should the entitlements be split to correspond with the standard offer segments (e.g. if there were three standard offer segments, the entitlements would be split so that a third is linked with each standard offer segment)?
6. Have other states split their standard offer supply into multiple contracts to protect against price volatility? Identify the state(s) and describe their standard offer program.
7. Are there any issues regarding the Commission's statutory authority to segment standard offer supply into multiple arrangements of differing durations?

Varied Supply Components

8. Should each standard offer supply segment be "all requirements" service at fixed prices throughout the contract duration? What are the advantages and disadvantages of this approach? What alternatives to all requirements, fixed price service should be considered?
9. Should there be a requirement for some segments to consist of certain type of resources (e.g. renewables)? What resources and why? How would a resource-specific approach be designed to protect against price volatility? What would be the advantages and disadvantages of requiring some segments to consist of specified resource types?
10. Should there be a requirement or should it be permissible for segments to be other than fixed price arrangements? For example, should the Commission require or allow certain segments to be indexed to fuel or market prices?

Hedging

11. In addition to addressing price volatility through standard offer supply segments, should the Commission engage in hedging strategies? Specifically, what would the hedging strategies be and what are their advantages and disadvantages? How would the Commission implement the hedging strategies? For example, would the Commission itself purchase options, derivatives or other hedging instruments? If so, how would the Commission obtain the funds for such purchases?

12. What are the advantages and disadvantages of the Commission itself engaging directly in hedging strategies as opposed to acquiring standard offer supply from suppliers who have presumably hedged their risks? If the Commission engages in hedging strategies, how would it determine which strategies to employ and how much to pay for particular hedging instruments.

13. If the Commission were to engage in a "portfolio approach" that entailed entering into a variety of long-term and short-term contracts and the purchasing of a variety of hedging instruments, would there be a risk of the creation of new stranded costs in that standard offer rates could end up being significantly higher than prevailing market prices? Should the potential for price volatility inherent in the Commission's current standard offer approach be considered the trade-off for the avoidance of new stranded costs?

14. Have other states engaged in a "portfolio" approach that entails entering into a variety of long-term and short-term contracts and the purchasing of a variety of hedging instruments? Identify the state(s) that have done so and describe their program(s).

15. Does the Commission have the legal authority to engage in hedging strategies other than through conducting a bid process for standard offer suppliers? For example, does the Commission have the legal authority to purchase hedging instruments?

Efficiency Maine

16. How can Efficiency Maine's demand-reduction initiatives be used to reduce the exposure of residential and small commercial standard offer customers to price volatility? Describe specific existing or proposed programs, how they would be implemented and how they would reduce customer exposure to volatility.

V. PROCEDURAL SCHEDULE

The following is the initial procedural schedule for this inquiry:

- General comments and responses
to questions

April 9, 2004

- Reply comments⁴ April 21, 2004
- Public meeting April 28, 2004, at 10:00 a.m.

A copy of this Notice will be sent to the Public Advocate, AARP Maine, all licensed competitive electricity providers, the Independent Energy Producers of Maine and the Industrial Energy Consumers Group.

Dated at Augusta, Maine, this 17th day of March, 2004.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
 Diamond
 Reishus

⁴ The direct comments/responses to questions of interested persons will be available through the Commission's virtual docket: www.state.me.us/mpuc